



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #830

### Use of County Shared Revenue (Shared Revenue and Tax Relief -- Direct Aid Payments)

[LFB 2001-03 Budget Summary: Page 605, #3]

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#### CURRENT LAW

The shared revenue program is comprised of two separate distributions and funding levels -- one for counties and one for municipalities. The funding level for counties is set at \$168,981,800. An additional \$20,763,800 is distributed to counties under the mandate relief program. From the two programs, funding totals \$189,745,600, annually. The aid under these programs is characterized as unrestricted state aid, which means that counties can use the funds for whatever purposes they deem necessary. The Department of Revenue administers the shared revenue and mandate relief programs.

#### GOVERNOR

Require counties to use aid payments received under the shared revenue and mandate relief programs to pay expenses related to certain programs that are not funded by other state or federal aid or a designated revenue source before the aid is used for other county costs that would otherwise be funded through the property tax, beginning with payments received after the effective date of the bill. Specify that this requirement would extend priority treatment to costs for the following programs: probation and parole holds in county jails, circuit courts, community aids and youth aids.

#### DISCUSSION POINTS

1. Historically, counties have been recognized as an administrative arm of the state. In addition to providing traditional local services such as law enforcement, transportation and parks,

counties have performed state-mandated functions in the judicial and human services areas. Over time, counties have identified functions related to the court system, juvenile justice, corrections and human services as mandates that are particularly burdensome. Counties find these programs burdensome because their costs exceed the level of state support they receive for the services and because they feel they have little discretion over the level of services they must provide.

2. Probation and Parole Holds. The Department of Corrections reimburses counties up to \$40 per day for felons being held in county jails pending revocation of their probation or parole for non-criminal rules violations. Payments are prorated if the number of reimbursable days exceeds the appropriated amount. In 2000-01, counties were reimbursed \$4.0 million, at a rate of \$37.29 per day for 1999-00 costs. At the \$40 rate, reimbursements would have totaled \$4.3 million. Actual county costs for probation and parole holds, both reimbursable and non-reimbursable, are not known. Non-reimbursable holds are those for misdemeanor probationers and felons held as a result of a new criminal charge.

3. Circuit Courts. The Wisconsin Constitution organizes the court system on the basis of circuits where judges are elected within each circuit. In general, each county comprises a circuit, except for three two-county circuits. The state has assumed funding of costs related to compensation for judges, reserve judges, court reporters, district attorneys and public defenders. Counties fund costs associated with the clerks of court, court commissioners, probate registrars, court security, support staff and law libraries. Also, counties fund the capital, maintenance and utility costs related to circuit court facilities. The state defrays some of the counties' costs through the circuit court support and guardian ad litem grant programs. Combined funding for these programs totals \$23.5 million annually. For 1999, counties reported costs of \$90.8 million related to their court operations, excluding costs related to security, rent, utilities, maintenance, remodeling and construction.

4. Community Aids. State law directs counties to provide human services in two broad functional areas. First, counties must provide social services for low-income persons and for children in need of protection and services. Second, counties must provide services for persons with needs related to mental illness, substance abuse or developmental disabilities. Community aids are state and federal funds that are distributed by the Department of Health and Family Services to counties for providing these services. State law requires counties to provide matching funds equal to 9.89% of the state and federal aid amounts. Most counties provide county funds in excess of the required match. These are called "overmatch" expenditures. County overmatch expenditures have increased from \$49.2 million in 1987 to \$212.6 million in 1999. Community aids funding totaled \$295.5 million in 1999. This implies a required county match of \$29.2 million. When combined with the overmatch funds, counties expended \$241.8 million in 1999, in addition to the \$295.5 million in state community aids allocations.

5. Youth Aids. The state's youth aids program is the major state funding source that assists counties in paying for juvenile justice activities. Generally, a circuit court judge issues a dispositional order for juveniles who are adjudicated delinquent that lists the services that must be provided to the juvenile in terms of supervision, care and treatment. The orders require either in-

home or out-of-home placements. For in-home placements and non-secure, out-of-home placements, the juvenile remains under the supervision of the county of residence, and county officials make decisions about treatment, subject to the dispositional order. A range of alternatives exists for out-of-home placements. The least costly alternative is placement in the home of a relative. More costly alternatives include placement in a licensed child caring institution and placement in a state-operated, secured juvenile correctional facility. For juveniles with a disposition to state secure care, the county is billed for the costs associated with these placements and for the cost of state-provided aftercare services. Through the youth aids program, state and federal dollars are combined to provide each county with an annual allocation to help pay for these juvenile justice costs. In 1999, counties reported out-of-home placement costs totaling \$105.8 million, which was \$19.2 million higher than the \$86.6 million provided under the youth aids program. Because out-of-home placements are court-ordered, counties have little discretion with regard to these expenditures.

6. The preceding information indicates that counties are expending own-source revenues well in excess of the \$189.7 million in shared revenue and mandate relief funding. Requiring counties to earmark revenues for expenditure in the designated areas would cause counties to implement additional accounting procedures, thereby imposing an additional mandate. The bill would neither impose penalties on counties that do not track their aid payments in the required fashion nor provide the Department of Revenue with resources to administer the provision. DOR has indicated that it may rely on counties' auditing firms to ensure that the requirement is met. In recognition of these observations, it is not clear what policy would be achieved by requiring counties to track their aid in the proposed manner.

7. The Executive Budget summary indicates that the provision is intended to "increase citizen understanding of the state-local relationship." While acknowledging that the previously described categorical aid programs do not fully fund state-mandated services, DOA indicates that the proposal would make taxpayers aware that other state assistance can be used to fund mandated services. Crediting shared revenues against the designated expenditure items would demonstrate the degree to which state versus local revenues are used as funding. This would distinguish where the state's role ends and the county's role begins. DOA indicates that shared revenue payments could be treated like the state accounts for program revenue. Therefore, counties could continue to deposit their shared revenue payments in their general fund.

8. The Executive Budget summary identifies this provision as one of nine items in the budget that are based on a recommendation of the Governor's Commission on State-Local Partnerships for the 21<sup>st</sup> Century. At meetings over a ten-month period, the Commission examined the organization, functions and finances of local governments and how local governments relate to state government. The Commission made 139 recommendations. Recommendation #63 reads, "Both human services and the state justice services programs should be state responsibilities. Statewide functions should not be funded by the property tax. Hence, as a general principle, Wisconsin ought to move, as soon as possible, to state funding for these functions."

9. The Commission realized that the conversion to full state funding could not occur immediately and recommended a phase-in over several years. One reason the Commission

recommended delaying the conversion is that reliable and consistent cost data pertaining to the four areas is not available. The Commission recommended audits to identify the county costs that the state would assume.

10. Concerns have been raised previously regarding the quality and consistency of expenditure data in the identified areas. A provision in 1995 Act 27 requires counties to report annual court expenditures on all court functions except costs related to courtroom security, rent, utilities, maintenance, remodeling and construction. However, the Director of State Courts Office, which reviews and compiles the data, has identified a number of inconsistencies in reporting among the counties. The Commission on State-Local Partnerships for the 21<sup>st</sup> Century cited the "lack of timely and detailed data" and the "potential lack of uniformity of data" with regard to county health and human services functions. Through the "human services reporting system," counties report expenditures and related information to the Department of Health and Family Services regarding services provided under the community aids and youth aids programs, as well as under other state programs.

11. Annually, counties report revenue and expenditure information to DOR, but that data lacks detail in the judicial and human services areas and may be inconsistent between counties. The Governmental Accounting Standards Board has adopted new procedures with regard to how government revenues and expenditures should be reported. The Board's rule is referred to as GASB 34. In response to GASB 34, DOR anticipates modifying its financial report form effective for 2002 (reports filed in 2003).

12. If the Legislature is interested in pursuing full state funding of county judicial and human services functions, improved information on counties' expenditures appears to be needed. The Legislature could direct the Department of Administration to assemble a committee consisting of representatives from the Department of Health and Family Services, the Department of Corrections, the Department of Revenue and the Director of State Courts to develop a financial reporting system. The system should achieve consistent cost definitions and treatment between counties, conform to generally accepted accounting principles, provide information on a timely basis and include sufficient detail to allow the development of future state funding alternatives. The committee could also include representatives of county government and members of the accounting profession. The committee's report could be submitted to the Legislature for its review.

## **ALTERNATIVES TO BASE**

1. Approve the Governor's recommendation to require counties to use aid payments received under the shared revenue and mandate relief programs to pay expenses related to certain programs that are not funded by other state or federal aid or a designated revenue source before the aid is used for other county costs that would otherwise be funded through the property tax, beginning with payments received after the effective date of the bill. Specify that this requirement would extend priority treatment to costs for the following programs: probation and parole holds in county jails, circuit courts, community aids and youth aids.

2. Direct the Department of Administration to assemble a committee consisting of representatives from the Department of Health and Family Services, the Department of Corrections, the Department of Revenue, the Director of State Courts, a representative of county government and a member of the accounting profession to develop a financial reporting system for counties. Specify that the system should achieve consistent treatment between counties, conform to generally accepted accounting principles, provide information on a timely basis and include sufficient detail to allow the development of future state funding alternatives. Require the committee to report on the system to the Legislature by March 1, 2002.

3. Take no action.

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